



4309 N Front Street  
PO Box 60007  
Harrisburg, PA 17106-0007  
800-932-0661

April 24, 2006

Ms. Mary Rupp  
Secretary of the Board  
National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314-3428

*Sent via email*

***Re: PCUA Comments on Part 715 ANPR, Supervisory Committee Audits  
Advanced Notice of Proposed Rulemaking***

Dear Ms. Rupp:

The Pennsylvania Credit Union Association (PCUA) appreciates this opportunity to provide comments on the advanced notice of proposed rulemaking (ANPR) published by the National Credit Union Administration (NCUA) related to its supervisory committee audit rules.

As noted in the proposed rule, NCUA comprehensively overhauled its supervisory committee audit rules in 1999 to conform to the Credit Union Membership Access Act (CUMMA) amendments. NCUA is now soliciting comments on whether NCUA should modify its supervisory committee audit rules to conform with the requirements imposed on other types of federally-insured financial institutions.

The PCUA is a statewide trade association that represents over eighty-five percent (85%) of the approximately six-hundred-forty-two (642) credit unions located within the Commonwealth of Pennsylvania. To respond to this request for comments, the PCUA consulted with its Regulatory Review Committee. The Committee consists of twelve (12) credit union CEOs who lead the management teams of Pennsylvania federal and state-chartered credit unions. Members of the Committees also represent credit unions of all asset sizes. The comments contained in this letter reflect the comments of the Committee and the PCUA staff.

***General Comments:***

As a general matter PCUA concurs and joins in the comments, recommendations, and suggestions offered by the Credit Union National Association (CUNA) and the response offered by the League Audit programs of: Alabama Credit Union League, Clay Morgan, Vice President Auditing Services; Georgia Credit Union League, Laura Gober, Director Compliance Services; Maine/New Hampshire/Rhode Island

Credit Union Leagues, Kathy Enderlin, Senior Vice President Audit Service; Oklahoma Credit Union League, Dana Kroutil, Director-Audit; Pennsylvania Credit Union Association, Chris Feather, Senior Auditor; South Carolina Credit Union League, LaTasha Cooper, Internal Auditor; Texas Credit Union League, Chad Stanislav, Vice President Financial/Technology Resources; Utah Leagues of Credit Unions, Russell Dickson, Audit Manager; and West Virginia League Services Corporation, Jenny Reynolds, Director Auditing Services (collectively referred to in this letter as “our colleagues”). In addition, PCUA offers other comments as noted below.

PCUA also believes that an attestation on internal controls results in a duplication of effort, which increases costs for the credit unions and their members. Accordingly, our Committee and staff strongly urge NCUA to conduct a thorough cost/benefit analysis before imposing new regulatory requirements on credit unions that do not outweigh the hardship and costs that are associated with them.

It is the position of the Committee and PCUA staff that, while at first blush NCUA’s proposal appears to increase the professionalism of credit unions’ supervisory committees and audits, the direction of NCUA’s proposal to mirror the requirements imposed upon for-profit industry and public companies may not be appropriate for credit unions, due to the differences in their ownership structure and organization.

Instead of adopting “for-profit industry-like requirements” on credit unions, NCUA should conduct a thorough examination of any existing problems in the movement related to supervisory committees and audits and address any identified problems with solutions that are appropriate for credit unions and their members. It is unclear to our Committee and staff that the proposal for duplicative audit functions is beneficial to anyone other than credit union regulators, who have other less costly and burdensome alternatives to verify the information contained in credit unions’ financial statements.

#### Internal Control Assessment and Attestation

1. *Should Part 715 require, in addition to a financial statement audit, an “attestation on internal controls” over financial reporting above a certain minimum asset size threshold? Explain why or why not.*

The ANPR proposes that credit unions adopt a FDICIA-like attestation requirement, which are similar to the ones imposed on public companies. In light of the ownership structure of credit unions, it is difficult to see the benefits this type of regulation would provide to credit unions or their members that would outweigh the costs.

In addition to the comments offered by our colleagues, our Committee believes that this requirement would impact credit union operations by limiting the availability of personnel resources for projects and other strategic initiatives due to the significant time that would be required to document an internal control assessment.

2. *What minimum asset size threshold would be appropriate for requiring, in addition to a financial statement audit, an “attestation on internal controls” over financial reporting, given the additional burden on management and its external auditor? Explain the reasons for the threshold you favor.*

If NCUA should decide to adopt an attestation requirement, PCUA generally joins its colleagues in encouraging the agency to set the threshold for requiring an attestation at \$1 billion. However, some

of our members stated that the requirement for an attestation on internal controls should be evaluated and determined based upon the risk of fraud to and the lack of internal controls and sound governance practices in a particular credit union.

3. *Should the minimum asset size threshold for requiring an “attestation on internal controls” over financial reporting be the same for natural person credit unions and corporate credit unions? Explain why.*

PCUA joins its colleagues in agreeing that natural person credit unions and corporate credit unions should have the same threshold for requiring an attestation on internal controls.

4. *Should management’s assessments of the effectiveness of internal controls and the attestation by its external auditor cover all financial reporting, (i.e. financial statements prepared in accordance with GAAP and those prepared for regulatory reporting purposes), or should it be more narrowly framed to cover only certain types of financial reporting? If so, which types?*

A few members of our group indicated that the attestation should cover all financial reports prepared in accordance with generally accepted accounting principles (GAAP), as well as, regulatory reports.

5. *Should the same auditor be permitted to perform both the financial statement audit and the “attestation on internal controls” over financial reporting, or should a credit union be allowed to engage one auditor to perform the financial statement audit and another to perform the “attestation on internal controls?” Explain the reasons for your answer.*

Credit union management should be given the option of using the same or different auditors. A few of our Committee members indicated that some credit unions may perceive value in obtaining two separate auditors, who would each bring a different expertise to the review. Allowing credit unions the flexibility in this area enables them to decide which is best based on the circumstances unique to their credit union.

6. *If an “attestation on internal controls” were required of credit unions, should it be required annually or less frequently? Why?*  
If an attestation were required, our Committee members believe that every three years would be appropriate. Credit unions should be expected to formally monitor the internal controls over financial reporting in the interim years.

7. *If an “attestation on internal controls” were required of credit unions, when should the requirement become effective (i.e. in the fiscal period beginning after December 15 of what year)?*

The effective date for any attestation requirement should be a minimum of 24 months after the issuance of a final rule.

#### Standards Governing Internal Control Assessments and Attestations

8. *If credit unions were required to obtain an “attestation on internal controls,” should Part 715 require that those attestations, whether for a natural person or corporate credit union, adhere to the*

*PCAOB's AS 2 standard that applies to public companies, or to the AICPA's revised AT 501 standard that applies to non-public companies? Please explain your preference.*

If an attestation is required, PCUA joins its colleagues that the appropriate standard would be the revised AICPA's revised AT 501.

9. *Should NCUA mandate COSO's Internal Control – Integrated Framework as the standard all credit union management must follow when establishing, maintaining and assessing the effectiveness of the internal control structure and procedures, or should each credit union have the option to choose its own standard?*

While some of our colleagues suggest that the standard for internal control attestation should be consistent for all credit unions, some of our Committee members believe that each credit union should be provided flexibility in adopting the COSO's internal control model to their environment.

Due to the subjectivity involved in the COSO model, as with any internal control framework, standardization can only go so far. Sufficient guidance in terms of acceptable/recommended internal control models should be provided. The COSO model, as well as the Criteria of Control (CoCo) model, should be among the top models used as guidance.

#### Qualifications of Supervisory Committee Members

10. *Should Supervisory Committee members of credit unions above a certain minimum asset size threshold be required to have a minimum level of experience or expertise in credit union, banking or other financial matters? If so, what criteria should they be required to meet and what should the minimum asset size threshold be?*

PCUA joins our colleagues in acknowledging that a credit union's Supervisory Committee is comprised of volunteers who come from within the credit union's field of membership. We agree that credit unions should be required to have Supervisory Committee qualification policies that balance the sophistication level required of the Supervisory Committee members given the complexity of the credit union.

Establishing one standard in terms of experience/expertise or one threshold in terms of minimum asset size is not in the best interests of credit unions as the appropriate standard may vary with respect to the assets and product/services of each particular credit union.

11. *Should Supervisory Committee members of credit unions above a certain minimum asset size threshold be required to have access to their own outside counsel? If so, at what minimum size threshold?*

A Supervisory Committee member should be able to retain his/her own outside counsel if he/she feels it necessary to fulfill his/her responsibility. This ability should not be contingent on the asset size of the credit union.

12. *Should Supervisory Committee members of credit unions above a certain minimum asset size threshold be prohibited from being associated with any large customer of the credit union other than its sponsor? If so, at what minimum asset size threshold?*

PCUA joins our colleagues in stating that there should not be a blanket prohibition on Supervisory Committee member's being associated with any large customer of the credit union other than the credit union's sponsor. However, business transactions must be conducted in a manner that does not result in a conflict of interest or give the perception of a conflict. No minimum asset threshold should apply.

13. *If any of the potential qualifications mentioned in the questions above were required of Supervisory Committee members, would credit unions have difficulty in recruiting and retaining competent individuals to serve in sufficient numbers? If so, describe the obstacles associated with each qualification.*

PCUA joins our colleagues in agreeing that the qualifications noted above make more sense in the for-profit environment where audit committee members are compensated and are recruited from a large pool of qualified individuals. In contrast, credit unions are always challenged to recruit and retain qualified volunteers from their fields of membership who are not compensated. The above-mentioned qualifications would serve to exacerbate the challenge.

#### Independence of State-Licensed, Compensated Auditors

14. *Should a State-licensed, compensated auditor who performs a financial statement audit and/or "internal control attestation" be required to meet just the AICPA's "independence" standards, or should they be required to also meet SEC's "independence" requirements and interpretations? If not both, why not?*

While our colleagues believe that a state-licensed, compensated auditor who performs a financial statement audit and/or internal control attestation should be required to meet only the AICPA's "independence" standards, some of our Committee members believe that the stricter of AICPA or SEC independence standards should apply, as this is a critical criterion.

#### Audit Options, Reports and Engagements

15. *Is there value in retaining the "balance sheet" audit in existing Section 715.7(a) of NCUA's rules as an audit option for credit unions with less than \$500 million in assets?*

PCUA concurs in the comments of our colleagues that the "balance sheet" audit is a viable option for small credit unions given size of their operations and the need for less expensive alternatives.

16. *Is there value in retaining the "Supervisory Committee Guide audit" in Section 715.7(c) of NCUA's rules as an audit option for credit unions with less than \$500 million in assets?*

The "Supervisory Committee Guide audit" has tremendous value to credit unions. PCUA joins in the comments, suggestions and recommendations included in our colleagues comment letters.

17. *Should Part 715 require credit unions that obtain a financial statement audit and/or an “attestation on internal controls” (whether as required or voluntarily) to forward a copy of the auditor’s report to NCUA? If so, how soon after the audit-period end? If not, why not?*

While our colleagues believe that it would not be efficient or necessary to require credit unions to forward a financial statement audit and/or attestation to NCUA, some of our members believe that requiring credit unions to submit them within 60 days of issuance would enable for more timely oversight and possibly earlier detection of potential issues. Another alternative would be to reserve this requirement for troubled credit unions, as defined by the regulation.

18. *Should Part 715 require credit unions to provide NCUA with a copy of any management letter, qualification, or other report issued by its external auditor in connection with services provided to the credit union? If so, how soon after the credit union receives it? If not, why not?*

PCUA joins our colleagues in stating that currently, credit unions are not under a mandate to automatically provide NCUA with a copy of any report/letter received from its external auditor and that the status quo seems to work efficiently. Generally, the examiner will request any such documents in advance of the examination.

If credit unions were required to forward such documents, it is possible that confidential information could be vulnerable to access by unauthorized individuals and could possibly be subject to disclosure in litigation involving unrelated third parties.

19. *If credit unions were required to forward external auditors’ reports to NCUA, should Part 715 require the auditor to review those reports with the Supervisory Committee before forwarding them to NCUA?*

PCUA joins our colleagues in stating that we do not believe that it is necessary to require an auditor by regulation to review his/her reports with the Supervisory Committee before forwarding them to NCUA. Since the auditor is hired by the Supervisory Committee, it is standard practice for auditors to communicate directly with the Committee. However, if credit unions were required to forward external auditors’ reports to NCUA, the regulations should require the auditor to always review those reports with the Supervisory Committee prior to sending them to NCUA.

20. *Existing Part 715 requires a credit union’s engagement letter to prescribe a target date of 120 days after the audit period-end for delivery of the audit report. Should this period be extended or shortened? What sanctions should be imposed against a credit union that fails to include the target delivery date within its engagement letter?*

PCUA joins our colleagues in stating that existing regulations prescribing a target date of 120 days after the audit period-end for delivery of the audit report, seems appropriate. Our Committee members and PCUA staff believe that sanctions should only be imposed in situations where the credit union routinely and without good reason fails to deliver the audit reports within the target date. Sanctions should not be imposed for simply failing to include the date in an engagement letter.

21. *Should Part 715 require credit unions to notify NCUA in writing when they enter into an engagement with an auditor, and/or when an engagement ceases by reason of the auditor's dismissal or resignation? If so, in cases of dismissal or resignation, should the credit union be required to include reasons for the dismissal or resignation?*

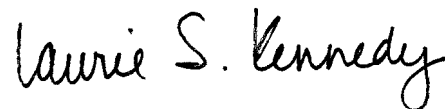
PCUA joins our colleagues in stating that NCUA regulations should allow credit unions to voluntarily notify NCUA in writing when their engagement with an auditor ceases. Notification should only be required for reasons of auditor ineptitude (gross negligence) or dishonesty.

22. *NCUA recently published a joint Interagency Advisory on the Unsafe and Unsound Use of Limitation of Liability Provisions in External Audit Engagement Letters, 71 FR 6847 (Feb. 9, 2006). Should credit union Supervisory Committees be prohibited by regulation from executing engagement letters that contain language limiting various forms of auditor liability to the credit union? Should Supervisory Committees be prohibited from waiving the auditor's punitive damages liability?*

The Interagency Advisory already states that credit unions and other financial institutions should not execute engagement letters containing waivers of auditor liability provisions. While our colleagues do not feel it is necessary to codify that in NCUA regulations, some of our members believe that the credit union Supervisory Committee should be prohibited by regulation from executing an engagement letter that contains language limited **any** form of auditor liability. Certified Public Accountants are licensed professionals and exposure to liability must remain to ensure that the profession remains accountable.

Thank you again for this opportunity to comment on behalf of Pennsylvania credit unions. Please feel free to contact me or any of the PCUA staff at 1-800-932-0611 if you have any questions or if you would like to discuss our comments.

Sincerely,



Laurie S. Kennedy  
Associate Counsel

LSK:llb

cc: Association Board  
Regulatory Review Committee  
State Advisory Committee  
J. McCormack  
R. Wargo  
C. Feather  
M. Dunn, CUNA